

The Banks AND Social Credit

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The Banks and Social Credit

MR. CHAIRMAN AND GENTLEMEN:--

Discussions on political and religious subjects are very properly banned by our service clubs. This sensible rule I have no desire to transgress. At the same time, it is obviously impossible for me to deal with this subject intelligently, without a somewhat critical treatment of certain aspects of the Social Credit theory.

Let me say at once, that I have for several years been a conscientious, intensive (and hopeful student of the Douglas plan. I have realized in all sincerity, that we have definitely entered a new economic era and that we cannot afford to ignore apparently heretical theories in the field of political economy. The present economic set-up cannot survive and it is doubtful whether radical thought will give society time to reform by the slow stages of the past.

I have, however, been unable so far to divest my mind of the idea that the Douglas National Dividend rests primarily on currency inflation, with all its attendant evils. In spite of urgent and friendly appeals to convinced Social Crediters here and in England, I have been entirely unable to obtain any satisfactory explanation on that very important point.

THE A PLUS B THEOREM.

The corner stone of Social Credit, according to Douglas, is "that production is not self-liquidating," meaning that the money outlay on production is not sufficient to pay for consumption. His argument is, as I understand it, that depreciation and obsolescence of machinery is a cost which cannot be collected in the selling price. Gillette's safety razor sold for five dollars and cost only 18c to produce. But the consumers, according to Douglas, did not pay for depreciation of machinery while Gillette amassed a fabulous fortune. Ford produces motor cars and frequently

scraps millions of dollars worth of plant. He has, nevertheless, built up a billion-dollar fortune out of profitable sales, but his customers are apparently still unable to pay for plant depreciation. One could go on indefinitely with similar examples.

Douglas argues that the present tremendous world debt is proof positive of his contention. That seems a very far-fetched theory. Any number of people and corporations have no debts whatever. Public debts are largely the fruit of colossal and unprofitable war expenditure, coupled with general extravagance and the enormous and ever-increasing cost of social services. Private and corporate debt and bankruptcy are due to a dozen factors. Bad management, crop failures, loss of markets, low prices, insufficient capital, etc., etc. I fail to see that the Douglas theory fits into the picture in any substantial way anywhere. In fact, I see no connection with it at all.

SIMPLICITY OF ECONOMIC TRUTHS.

If production is not completely self-liquidating, it would simply mean, in plain English, that production does not, over the years, collect enough on its sales to cover all its costs, plus a margin of net profit to pay for its use of capital. In other words, that ~~our whole industrial system has, since the introduction of the factory system, inevitably been drifting into bankruptcy, all of which is a manifest absurdity~~ in the light of actual human experience. Thousands of industries are more prosperous to-day than ever they have been in their history.

The Douglas "theorem" is one of these glittering generalities, which sensible people will not waste time on proving or disproving. The sum of human experience over the centuries shows conclusively that Douglas is wrong or the whole economic machine would have come to a full stop long ago. He often tries to dismiss criticism by asserting that the proof lies in the field of higher mathematics. Those tactics are quite characteristic of the man, and his followers dutifully repeat the same

convenient alibi. Any intelligent person should know, that his famous "A plus B Theorem" can either be demonstrated by simple addition and subtraction, or it cannot be demonstrated at all. Furthermore, a great economist once said: *All great economic truths are simple and easily understood.* He said nothing about higher mathematics.

THE DISTRIBUTION PROBLEM

Major Douglas apparently misses the central issue completely, which is, that some lines of production are gloriously self-liquidating, even to the point of piracy, while other lines of production, for instance, agriculture, most decidedly are not, which merely brings us face to face with the age-old problem: "How can we influence the general price level to insure that each one of us receives a fair and just valuation for our goods and services in exchange for the goods and services offered by other citizens or groups of citizens?" This is the hitherto unsolved problem of economic justice the world over. Nothing we can possibly do in Alberta or in Canada will increase the world's fluctuating prices of wheat, hogs or butter. What then is the economic formula which will ensure a general commodity price level fluctuating in reasonable unison with agricultural prices, so as to maintain normal farm purchasing power? That is the critical problem facing every patriotic Canadian.

Major Douglas says, that if his "A plus B" theorem is incorrect, then his whole social credit system falls by the wayside. There would, he concludes, be no necessity for it. I do not agree with that conclusion at all. The theorem is merely supposed to demonstrate the urgency of a change in our economic system. That most of us are willing to take for granted. The dividend, just price, etc., are the remedies. Personally, I do not care a button about fine-spun theories, what I am primarily interested in is \$2,500 a year social dividend, or, even what Mr. Aberhart more modestly promises, \$25 per month. *That is the sort of scheme which*

appeals to everybody under any kind of an economic system, theorem or no theorem. What we are all interested in ascertaining is, what our chances are to obtain this "easy money."

The fair, or more even, distribution of national income, which Social Crediters are everlastingly harping upon, normally takes place solely through the wage and price system. If these are justly balanced each occupational group is justly treated within our social structure. The "national dividend" idea is a somewhat crude attempt to compensate in a small way for present obvious injustices, which is merely treating a symptom instead of a disease.

THE ABOLITION OF POVERTY

Referring to Mr. R. B. Bennett's comments on the disallowance of the Alberta Bank legislation, Mr. Aberhart recently exclaimed:

"As I listened to him discussing the constitution of Canada and the propriety of disallowance, I could not help saying 'What about the poverty-stricken, debt-ridden, homeless people in the meantime.' Economic adjustment is one thing. Constitutional jurisprudence is quite another. This is a time for action. There is such a thing as fiddling while Rome burns."

These are admirable sentiments which, however, are not peculiar to social credit advocates. They are held by all decent people. *Every tax-payer is lying awake at night trying to figure out how poverty and relief can be banished.* But a great many of them find it hard to follow Douglas' theory, that our whole financial and industrial structure is founded on a huge illusion. That we can, as a matter of fact, pay everyone a steady monthly income and at the same time abolish taxation and enjoy life!

THE CULTURAL INHERITANCE

Douglas does not offer us a monthly pension purely on compassionate grounds. He boldly claims that we are justly entitled to the cash equivalent of our "cultural inheritance." He seeks to convince us, that we have an inalienable right to draw a monthly income for life *based on that*. If he means what he says, his theory

seems about as fantastic to me as attempting to capitalize the Holy Bible or the ancient classics and deluding credulous people into believing, that they are rightfully entitled to draw a monthly "cash-on-the-nail" dividend because these immortal works were produced many centuries ago. The whole theory seems ludicrous. It is the product of an over-enthusiastic propagandist.

But perhaps he does not mean precisely what he says, but uses the word "cultural" in the wrong sense. He probably means "mechanical" or "material" inheritance. If so, he seeks to establish the fact that the present generation has a *monetary* interest in them. We certainly profit every day by the accomplishments of the intellectual giants of the past. We profit every moment of our lives by the wonders and comforts available to us all by reason of research and invention of the past, but the idea that in addition to all that we should be paid cold cash as a "dividend" arising out of the work of Stephenson, Edison, Marconi and others seems a preposterous theory.

THE RICHER LIFE

Surely the enjoyment and profit of the benefits these outstanding men have conferred upon mankind is sufficiently advantageous to the present and future generations, without also expecting a perpetual cash bonus for something we had no part in inventing or creating and from which no monetary income is available to the state out of which to pay such bonus, saving what is collected by way of taxation. It seems a very far-fetched conception. *We reap our full benefits in a higher standard of living, for which we should be eternally grateful to those supermen who went before us.* I see no grounds or basis for monetary claims in addition to that.

It seems to me that Major Douglas weakens his case for social dividends by setting up these quite irrelevant claims to them as an inherent "right" residing in every citizen. Of course, no one has a "right" to payment by the state except for

compassionate reasons or for service rendered. The state owns nothing but what it takes away from its tax-payers. The citizen supports the state—not the state the citizen.

THE DOUGLAS AGE OF LEISURE

The mind of Major Douglas harbours many new ideas. He does not in the least agree with the admonition in the Good Book about "eating our bread in the sweat of our brow." We should all do only the least possible amount of work. He welcomes unemployment and extols its virtues. Why should genius starve in a garret as of old? He sees the budding poet, with his national dividend secure in his pocket, strolling through sunny glades carefree and composing masterpieces.

In his "Scheme for Scotland" Douglas at once reduces the daily office hours of civil servants to four. In fact, with our extensive mechanization, the time has surely come, when man can live in luxury with the citizen working only a couple of hours a day at some congenial occupation and if he does not choose to do so, living a life of leisure on his "dividend."

All of which is decidedly half-baked. Weird ideas without the least foundation in fact. The popular illusion of abundance is created simply through the temporary over-production of a few natural products. Douglas should study the recent report of the "Brookings Institute" of Washington, embodied in the volume "America's Capacity to Produce." This is the result of four years of intensive, technical investigation by a body of outstanding economists, headed by Dr. Harold D. Moulton.

It was clearly demonstrated, that in the boom year 1929 the *unused capacity to produce was less than 20 per cent of America's total equipment and manpower*. Also that up to that year the percentage of unused capacity had been fairly constant at that point. In other words, only 20 per cent more goods could have been produced in any year.

THE BROOKING INVESTIGATION

On the other hand, investigation into the field of consumption, published in a separate volume, brought to light some startling facts. I shall quote Dr. Moulton's own comments:

"The first finding of the Institution in this connection was that the country suffered from no physical inability to consume the extra 20 per cent. It was not true, in other words, that the cause of the whole economic collapse was the "excess plant" of which certain economists used to talk. The proof of that was simple. Families having incomes of \$2,500 a year or less spend practically all their incomes for bare necessities.

"These families therefore are practically without conveniences or luxuries. Since, even in 1929, there were almost twenty million such families and since twenty million families constitute approximately 70 per cent of the total population, it is evident that almost three-quarters of the population were without, and were therefore potential buyers of, luxuries and conveniences. And since twelve million of these twenty million families had incomes under \$1,500 in 1929 and six million had incomes under \$1,000, it is probable that many of these people were also potential buyers of unbought necessities as well.

"The same point may be made in reversed terms by saying that in 1929 only two million families, or 8 per cent of the population, had incomes over \$5,000 and only 600,000 families, or 2.3 per cent had incomes in excess of \$10,000. It was to this meagre 8 per cent that most of the conveniences and luxuries manufactured in America in 1929 had to be sold if they were sold at all. So far are we then suffering from "excess plant" that a 75 per cent increase in production would be necessary in order to supply the entire population with the goods which the Department of Agriculture considers essential to a 'reasonable' standard of living."

It is, therefore, clearly shown that in the United States, the most highly mechanized country in the world, if every man and every available machine had been put to work, *that country could not have produced one-half of the goods needed to give its whole population even what its own Department of Agriculture regards as a minimum satisfactory standard of living.* Those findings land us miles away from any ages of leisure or plenty.

THE AIM OF STATESMANSHIP

The central aim of enlightened statesmanship in civilized society is very prop-

erly to abolish poverty. Communists would solve the problem by confiscating all private property, placing it in a common pool and offering the citizen such economic security as the aggregate production of the state would permit, in return for submerging his individuality and submitting to a state of virtual slavery. That, at least, is a clear-cut, feasible and comprehensive programme.

But the Social Crediter pretends to abhor Communism and seeks his remedy within the capitalistic system. He proposes, in some way yet to be explained, to pay each citizen \$25 per month out of a mysterious fund, created God knows how, but not, we are told, through the direct and simple—but exceedingly painful and admittedly impossible—medium of taxation. The Social Credit leaders picture for their followers a new, strange and unreal economic world. “Make-Believe” is the ruler.

We are told that paper currency is merely “tickets,” orders on real wealth, all of which is perfectly true. In the next breath, however, we are informed that a perpetual scarcity of these despised “tickets” is to blame for all the economic ills of the nation. The two theories do not seem to hold together. Responsible Ministers suggest to the banks that it is their duty to print unlimited currency and pay a pension of \$25 per month to every citizen of Alberta, free, gratis! Why that suggestion is not handed to the Federal Government, which issues as much currency as the banks do and might for obvious reasons take a more sympathetic view of the request, is not revealed.

THE CENTRAL IDEA

“Tickets” or “Orders” entitling the holder to the equivalent value in commodities and services in the open markets are to be issued. That is the central idea in the Social Credit theory. The proposed \$25 “ticket” presumably entitles the holder to demand “real wealth” up to that amount. That is, commodities produced by the labour of others. This puzzling question then confronts us:

How can we hand over to one citizen, as a free gift, \$25 worth of such commodities, without confiscating by taxation the equivalent, plus administration cost, from the production of another citizen? I suppose, no sensible person will deny, that if anyone—be it government or individual—gives Brown an order for \$25 worth of goods, and he buys with it a suit of clothes from Smith, the party which issued the order—in our case the Government of Alberta—must assuredly pay Smith the full amount of the order, in which event this document is handed back to the Government and destroyed. This ends the whole transaction.

"ORDERS" IN CIRCULATION

Supposing Smith does not demand payment, but complacently endorses this "order" over to another merchant, and the latter and others follow the same course, this order then virtually becomes currency in circulation. As long as it circulates the government is not called upon to liquidate it. It becomes part of the government's floating liability.

It is not inconceivable that the government might keep a few million dollars in circulation through some such scheme and thus enjoy an interest free loan to that extent. The Alberta Government tried it with the "Prosperity Certificate" plan, but in spite of ample and serious warning, this amateurish scheme of financing was carried out in so clumsy a manner, that it was doomed to extinction before it was even started.

THE CRUCIAL POINT

We now come to the crucial point in the whole Social Credit theory. How can a government pay out Ten Million dollars each month in "dividends" to its citizens without raising the money by taxation so as to redeem its checks or orders for goods? The government clearly cannot go on issuing "orders" and still more orders, month by month and year by year, indefinitely. Mr. Aberhart himself saw that clearly and asked Hargrave point

blank how it could be done. So far no one has explained the mystery.

There is, of course, nothing whatever to prevent any government, which has the power to do so, from printing and distributing millions, or billions, of paper currency. France, Italy, Germany, Russia and other countries did precisely that after the war. The value of this kind of "new money," however, deteriorated steadily, *although all the resources of these great and powerful nations were behind it.* Travelling through Germany I had the unique and informative experience of paying enough billions of this depreciated money for a plate of soup, to retire completely the total bonded indebtedness of the German state Railways! Since then I have not been very much impressed with unregulated paper money, backed merely by the resources of a State. In fact, social credit is, I fear, due for a rude awakening if an attempt is made to issue unlimited paper currency on the strength of Alberta's resources.

Douglas, as I understand it, hopes to prevent monetary collapse by price control. It is true that some nations do now regulate the prices of a few stable food articles. *But no country in the history of the world has ever undertaken the gigantic and utterly impossible task of effectively controlling the ever fluctuating prices of each of the thousands of items of goods and services, all the way from needles to coffins, which we buy and sell daily.* It simply is not practical. Even if it were, can we go on for ever issuing cartloads of paper money year by year, expecting dealers to go on accepting it in payment for real butter and eggs?

We can, of course, print unlimited "tickets" and the banks, we are told, can create unlimited credit by "mere book-keeping entries." But neither printed tickets nor fancy bookkeeping entries will make socks to wear, bread to eat or houses to live in. That takes real labour and we all live merely by exchanging labour and services with others. There is no other way for the ordinary man to gain a livelihood.

except by inheritance, by charity or by robbery.

PRODUCTION THE THING

It stands to reason, that, we cannot change the physical conditions of a country by mere juggling with such side-issues as currency and accounting. We must get down to realities which finally centre around the enterprise and productive capacity of its citizens and their equipment. The welfare of mankind, in fact, depends on one thing only—production. That is the keystone in the economic arch.

If we do not produce we cannot enjoy a decent standard of living. In fact, we cannot live at all. Modern man has fairly solved his production problem through marvellous improvements in mechanization. But he can never produce too much. The more we produce the higher our living standard. The standard of living of the great majority of people, especially the farmers, is now so low, that we need to double our industrial man-power and equipment and then work day and night to come anywhere near providing even a fair minimum living standard for everybody.

Dr. Virgil Jordan puts the case in a nutshell when he says:

"The prosperity and security of all the people in this country have come and can come only out of the work they do. The amount of prosperity and security they can have at any time depends solely upon the combined effort of mind and muscle which they are willing and able to apply in using the natural resources of the country to produce the necessities and comforts they consume and exchange, and the tools and machines they need in order to produce as much or more in the future. The more work everyone does, the more people there are who work, the harder and longer and more effectively they work, the more prosperous and secure they will be. There is no other way."

NO PLACE FOR DRONES

Quعر money, tricky book-keeping systems and loafing citizens occupy no place in Dr. Jordan's simple economic formula, which every thinking person instinctively knows is sound and true. So I utterly fail to comprehend exactly where the place is in any human society—be it capitalistic, communistic or any other kind—for the

voluntary drone, existing on a so-called "social dividend" and steadily consuming goods, towards the production of which he renders no services whatever. Such a gentleman of leisure is obviously fed, clothed and sheltered by the products of those who do work, no matter what name we may give such a transaction or system. He cannot possibly be supported otherwise. Furthermore, I would regard the principle of able-bodied men being maintained in idleness by the community as degrading and wholly indefensible.

THE FARMER AND THE NATIONAL DIVIDEND.

Granting that the National Dividend, the central plank in the Social Credit platform, proves entirely feasible, the question still arises whether the \$25 a month promised could possibly create anything like agricultural prosperity and contentment, where crop failure often mulcts the farmer to the tune of thousands of dollars in a season and when he has to sell his products at "fire sale" prices. *If, by the way, there is only \$25 per head of population available for distribution each month, why pay it to the thousands of comparatively well-to-do people in our towns, merely so that their women may buy additional finery, when multitudes are in dire need on the land?* It seems a senseless policy to me, absolutely out of tune with the agricultural distress we see all around us.

IS IT WORTH WHILE?

What price will the farmers of Alberta, upon whom all classes depend for their prosperity, be expected to pay for the privilege of receiving \$300 a year? Douglas long ago laid down the leading principle that Alberta must at once proceed to build up a large fund in legal currency wherewith to finance payments outside the province. The recent report of the "Planning Committee" of the Legislature outlines the procedure. Incidentally, this committee reduces the National Dividend from \$300 a year to \$60 a year! This is the proposed set-up:

The Provincial Government is to create a marketing organization to handle all our

export products, such as wheat, butter, livestock, coal, etc. The government will then sell it and collect the legal currency on the disposal of these products, but will pay the farmers and other producers in a new kind of scrip or currency, which they apparently have no legal right to issue, and legislate so as to make this currency accepted within the province, which also is beyond the power of a provincial government.

Farmers are thus to be paid for their wheat and livestock in a provincial scrip, which has no standing and has nothing behind it but the nebulous assurances of a financially embarrassed province, now in default on its public debt and unable to redeem its own saving certificates. And the Alberta government will collect the legal currency arising out of selling our wheat, livestock and coal and expend it on external payment. The farmer would, I assume, be able to obtain from the government legal currency for his own external payments upon application. *Is all this inconvenient, expensive and elaborate machinery worth while in return for a National Dividend now reduced to \$60 per annum?*

MR. ABERHART'S PROBLEM

Mr. A. W. Coleman, a noted writer on social credit in England, discussing this phase of the problem in Alberta, writes as follows in "The New Age" of London, a social credit publication:

"The Provincial Credit Authority which must be set up will have no store of Dominion cash currency wherewith to pay Alberta dividends. Such dividends will have to be paid in a Provincial currency, the issue of which will be technically illegal, and the trading banks at present functioning within the Province must accept this Provincial currency, either by agreement or under threat of being starved out of business by the opening of Provincial Government trading banks. That, in brief, would appear to be Premier Aberhart's main and immediate problem. Few will envy him the solution of it."

The italics are mine. Canadian banks cannot, of course, legally accept any currency issued by a province. I also seriously doubt whether Alberta farmers would agree to surrender their products to the government and whether the government

has the power to compel them to do so. If Douglas can solve this problem to everyone's satisfaction one would have greater faith in his "new economy." *In the meanwhile, a frank statement by the Alberta Premier, outlining the details of the government's plan is clearly in order.*

THE BANKING SITUATION.

Banking in Canada is very important from a public utility standpoint. It is not nearly so important regarded merely as a factor in our general economic life. Social Credit politics have, however, been built almost solely around the alleged iniquities of our banking system, which has been magnified into a position of supreme economic importance and dictatorship quite out of proportion to the actualities of the case. Any bright school child, taking the trouble to study the subject, would become convinced of that fact. It is, therefore, not to be supposed, that the members of the Alberta Government are so lacking in ordinary intelligence, that they themselves actually believe all the wild statements now being bandied about.

Under the circumstances, one must reluctantly conclude, that this "bank-baiting" campaign is merely engineered for the purpose of stirring up public frenzy and creating a popular campaign cry. If that is the case, it is important that the public should be properly informed.

PUBLIC ENEMY NO. ONE.

The entire population of the West is now being asked to firmly believe that we have for generations been sheltering a viper in our bosoms. The banking system is nominated Public Enemy No. 1. Every cheap and ignorant demagogue is touring the country preaching death and destruction to all financial institutions; those conspirators who, we are told, have sworn to obliterate our civilization and reduce us all to economic slavery.

A great point is made of the power of our banks to issue paper currency. I have seen no reference to the fact, that under the banking legislation of 1934 this power was curtailed by a general reduc-

tion of such issues over ten years, so that by 1944 these issues are reduced to 25 per cent of their paid-up capital, a mere trifle. Also that this enactment clearly foreshadows the complete abolition of this privilege, which now bears a tax of one per cent of the issue and is of, I understand, very negligible advantage to the banks.

Let me state quite clearly and emphatically that the banking system of Canada has, as far as I can see, neither the opportunity, the genius nor the power to "abolish poverty," nor even to help or hinder to any substantial degree the fortunes of the average citizen. Its influence for good or for evil cannot possibly touch the vast majority of people, who do not have to go near a bank unless they want to. The comparatively small group of people who are forced to become heavy borrowers are, of course, vulnerable and often subject to bank influence and even dictation, which is unfortunately the fate of all debtors. To picture the banking business as the key and pivot of our whole economic fabric is, however, a distortion of facts — a gross and easily proven falsehood.

DOUGLAS VS. THE WORLD

One of the things to bear in mind is, that the banking and general financial system of Alberta and of Canada, is, by and large, exactly the same as that which prevails in every other civilized country in the world — in republican France, in socialist Denmark, Norway and Sweden, in fact, everywhere the world over, including Great Britain and all the Dominions and colonies. The citizens of Alberta are the first civilized people who have actually discovered that this universal banking system is leading the world rapidly to the brink of disaster and is gradually enslaving the unfortunate citizen. That also is Mr. Aberhart's conclusion against the opinions of experienced and highly trained economists and world statesmen, who apparently remain entirely unconvinced and uninterested, and slightly amused at our antics in Alberta.

We are gravely informed, that bank loans create all deposits, that finance is merely a matter of using a fountain pen—of peculiar accounting methods. In 1932, bank deposits in the United States stood at 25 billions of dollars. By 1937 they had increased to 36 billions. In 1932 total bank loans there amounted to 16 billions, and in 1937 they had fallen to 14 billions. Over the five years *loans declined by three billions while deposits increased by eleven*. Will our financial "witch doctors" kindly explain how deposits were in any shape or form influenced by loans? Small savings accounts represent the bulk of Canadian bank deposits. It is obvious that these are not affected in the slightest degree by the volume of bank loans. It is just one of these preposterous statements, which, if repeated often enough, finally becomes gospel truth and the basis of peculiar economic theories.

THE MECHANICS OF BANKING

Granting, however, that this wild assertion is actually true, what then? I am not in the least interested in the routine mechanics of banking. If someone tells me that my barber creates my hair-cut out of nothing, it would not disturb my slumbers at all. The sole question I am concerned with is whether or not he charges me too much for the job and that is the only interest any one of us has in respect to banking or financial services of any kind. The complaint by the Social Crediters is that banks "create" credit out of nothing and wax fat on charging full interest on these "ghost" loans to the public.

When a farmer produces turnips by the liberal use of cow manure and, in turn, makes beef out of the turnips and sells it at a profit, the buyers of the roasts, do not get particularly excited about it. It is merely the mechanics of agriculture, of little concern to town people. If he could make just as good beef by merely reciting certain potent incantations or wielding a fountain pen, the consumer would be quite happy to have him do so, nursing in his bosom the not unreasonable hope of

eventually getting cheaper beef. If by virtue of financial magic, banks can create unlimited funds for loaning, by all means let them do so. If that is what we want, the more, the better. *That would be the sure road to low interest rates for us all.*

The normal procedure is, that the public rents its savings to a bank at a low rate of interest. The bank lends these savings to its customers at a higher rate of interest with the expectation of making a profit, but no bank would make loans in excess of its available deposits and its own capital. Banks can no more "create" money by bookkeeping entries than can a government. *Bank loans must be based on stored, real purchasing power, in its custody as savings, or under its ownership as capital.* Banks can tap no other money sources.

THE CRUCIAL QUESTION

The crucial point is not how a banking system makes its profits, but whether it makes too great a profit for the services rendered. In other words, whether it actually robs the public. That information cannot be obtained by just analysing its methods and mechanism, which may, or may not, appear to be conventional. The crucial fact may, however, be easily ascertained by examining its annual balance sheet and profit and loss statements, which are audited according to government regulations and tell the whole story in brief form. That shows the capital invested and the net earnings for the year and whether the banking system as a whole absorbs too great a proportion of the national income. That is the only basis for intelligent criticism and for any reform which conceivably may be indicated.

These facts and figures are public property and are easily available to any one who cares to inquire. The banks, however, make the flat assertion, that, aside from one or two of the big cities, they have made no profits whatever in the prairie provinces. I believe that statement to be substantially true, having in view the terrific losses they must have sustained. If so, it is difficult to under-



stand how a change in our financial system could very much benefit the public, leave alone abolishing poverty and want. This claim is ridiculous on the face of it.

The total investment of our banks is about 279 million dollars. In 1936 they earned less than 16 million dollars on this huge capital, or about 6⁵/₁₀₀ per cent. It seems a very modest return. To do this they operated 3,100 branches throughout Canada. If we confiscated the entire profit of all the banks and distributed it to the people of Canada, *we would each receive an annual income of the munificent sum of about one dollar and forty cents per head*, which would not go any alarming distance towards abolishing poverty!

WHAT DO WE PAY FOR BANKING SERVICES?

Do the banks actually absorb too great a proportion of the national income for the services they render? I have not been able to lay my hands on Canadian statistics covering the distribution of national income. But the United States' figures will do very well, and would not be substantially different in percentage from those of Canada. These are carefully compiled and issued by the U. S. Treasury Department. The latest complete figures covering National Income in the United States is for 1935. The total income was about \$53¹/₂ billions. That was distributed as follows:

Wages	67.3 per cent
Dividends	5.3 per cent
Interest	8.3 per cent
Rents & Royalties	2.8 per cent
Farmers, Retailers, etc.	16.2 per cent
Balance on Foreign account	0.1 per cent
	<hr/> 100.0

Applying these percentages to Canada, we find then that out of the National Income 8.3 per cent was paid out on account of interest. That, of course, includes interest on mortgages — by far the greater volume of loans, which could not under our laws be supplied by the banks. It

includes the huge amount of interest paid by the banks themselves to their savings depositors. It also includes interest on the enormous bonded indebtedness of business, railways and industry, held in Canada, money which is only supplied by the banks temporarily and to a very small extent. We could not, therefore, by the wildest stretch of imagination, estimate the interest income of bank loans of all kinds at more than two per cent of the National Income, out of which banks must meet their operating costs and losses.

There can only be one meaning to that, namely, that included in the expenses of the average citizen, directly and indirectly, is an average charge of two per cent on his annual income which is absorbed by the banking system. That, in brief, is approximately the total burden on the nation in return for all banking services. Distributed over ten banks it probably gives them a fair, average return on capital invested. Whatever it is, the governments have full power to tax it up to any extent, almost to the point of virtual confiscation. I cannot see that the public interest is not completely protected. Certainly banks cannot "profiteer" with impunity.

THE BANK BURDEN AND THE TAX BURDEN

At this point, I think, we should use common horse sense. The Social Crediters try to tell us that the banking system is bleeding us white, that it is the cause of the whole economic breakdown and is, in fact, the one great menace facing our civilization. *Mark carefully, that this system costs us two per cent of our national income, while the aggregate taxation, Federal, Provincial and Municipal, absorbs twenty-five per cent of the same income.*

Now, do let us try to think straight and cultivate a due sense of proportion. S. C. spell-binders draw eloquent word pictures of the blissful state which will be our lot as soon as we have subdued or liquidated these alleged financial gorillas, how the curse of poverty will be abolished and all the rest of it. If banks rendered

their services to society for nothing, and gave us loans entirely free of interest, it could not decrease expenditure out of national income by more than two per cent, which would be available to raise our living standard.

If, on the other hand, we reduced taxation from the present 25 per cent to 23 per cent of the national income, it would, of course, have exactly the same social effect! Surely this would be a much easier and saner remedy. Mr. Aberhart could have done that for Alberta by supporting Mr. Cockroft's plan to refund our public debt at a lower rate of interest through negotiation, which, however, was vetoed by Douglas, the evil genius in the background.

He could also have put into effect administrative economies instead of adding steadily to the cost of government. But no one waxes eloquent about so sordid a matter as taxation! Why not save our energy and enthusiasm to denounce the ruthless confiscation of one-quarter of our income by more or less extravagant and incompetent governments?

THE INFLUENCE OF DOUGLAS.

The truth is, that the whole social credit theory is built on illusions and promoted by mass hysteria, which is so easy to arouse through the ever-popular pastime of bank-baiting, in which our social and political demagogues have become very expert, indeed, during recent years. Douglas is utterly unable to submit a clear, concise and convincing explanation of his own theories. The banking system obviously has nothing whatever to do with his "new economics." His anti-bank campaign is merely designed to inflame the public mind and divert attention from his own inability to give a business-like and logical exposition of his involved and tortuous reasoning, which, in spite of all pretences to the contrary, no one has so far been able to make head or tail of.

From information received, I would hazard the opinion that this banking persecution policy did not emanate from the

mind of Mr. Aberhart, nor from the members of the original government. The same remarks apply to the re-enactment of vetoed and press control legislation, the formation of a provincial police force and other radical measures. These are undoubtedly the brain children of Major Douglas and his representatives here, enjoying the support of the "insurgents" the dominating group in the house.

I cannot condone the attitude of Major Douglas, safely ensconced in his London office, urging the Edmonton government into a course, which must in the end result in a serious constitutional crisis, with all the disastrous consequences to be borne by our already hard-pressed citizens. I can have no admiration for a man, who himself alleges that he has undertaken the difficult task of helping his fellow men to a higher standard of living, and who has not the spiritual backbone to come to Alberta and courageously face this task. It is only fair to say, that many of his followers in England take precisely the same view.

